

# **Southwest Barry County Sewer and Water Authority**

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**Financial Report**

**March 31, 2008**

# **Southwest Barry County Sewer and Water Authority**

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## Independent Auditor's Report

The Board of Directors  
Southwest Barry County Sewer  
and Water Authority  
Delton, Michigan

We have audited the accompanying basic financial statements of Southwest Barry County Sewer and Water Authority as of March 31, 2008 and 2007 and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southwest Barry County Sewer and Water Authority at March 31, 2008 and 2007 and the changes in its financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

June 4, 2008

# Southwest Barry County Sewer and Water Authority

## Management's Discussion and Analysis

### About the Authority

Southwest Barry County Sewer and Water Authority (the "Authority") provides the townships of Prairieville, Barry, Hope, and Johnstown with sewage and disposal services. The Authority also operates and manages a public water system for the unincorporated Village of Delton. The Authority was incorporated in May 1991. The Authority is governed by a board composed of board members from each constituent township.

### Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two fiscal years:

	March 31	
	2008	2007
<b>Assets</b>		
Current assets	\$ 856,200	\$ 879,414
Restricted assets for debt services	7,014,986	2,517,401
Other assets	241,225	264,145
Capital assets	7,565,038	6,798,432
Total assets	<u><b>\$ 15,677,449</b></u>	<u><b>\$ 10,459,392</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities	\$ 948,119	\$ 896,986
Long-term debt	5,074,487	3,064,229
Total liabilities	6,022,606	3,961,215
<b>Net Assets</b>	<u>9,654,843</u>	<u>6,498,177</u>
Total liabilities and net assets	<u><b>\$ 15,677,449</b></u>	<u><b>\$ 10,459,392</b></u>

# Southwest Barry County Sewer and Water Authority

## Management's Discussion and Analysis (Continued)

### Revenues and Expenses

The Authority's financial position has improved significantly over the last three years. Revenue continues to outpace expenses.

The following table shows the changes in net assets during the years ended March 31, 2008 and 2007:

	Year Ended March 31	
	2008	2007
Operating revenue	\$ 735,144	\$ 698,862
Operating expenses before depreciation	608,647	569,118
Net operating income before depreciation	126,497	129,744
Depreciation	663,158	677,509
Net loss from operations	(536,661)	(547,765)
Nonoperating revenues	441,327	323,374
Capital contributions	3,252,000	-
Net Income (loss)	<u><u>\$ 3,156,666</u></u>	<u><u>\$ (224,391)</u></u>

It appears that the turnaround of the Authority's financial position began approximately four and one-half years ago by the refunding of the Authority's primary bond. This action reduces total debt service payments over the next six years beginning in 2006 by approximately \$525,000. The Authority hired an administrator in January 2005, which added significantly to the operations of the system by adding another layer of internal controls, by improving communication between operations and the governing board, and by dedicating a new employee to work on long-range planning and goals.

One of the primary goals of the Authority has been to fulfill its objectives by increasing its service district to that which was contemplated and approved by the four participating townships when the Authority was begun. This proposed service district included servicing Cloverdale and Long Lakes in Hope Township, which are in the process of being hooked up to the original system.

The Authority continues to make significant investments in capital improvements. In previous years, the Authority purchased a pumper truck, a service truck, and a John Deere tractor. With this equipment, plus the use of the Authority's own personnel, a contract to pump the Authority's tanks was no longer needed.

# **Southwest Barry County Sewer and Water Authority**

## **Management's Discussion and Analysis (Continued)**

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Cost savings continue to be realized from those purchases.

In 2006, the Authority also purchased an injector so that the Authority no longer needs to hire a subcontractor to inject its bio-solids into the Authority's own property. This has created an additional savings of approximately \$30,000 to \$50,000 per year.

Last year the Authority also finished paying for a 60' by 80' by 14' pole barn, which is located on property owned by the Authority, near the treatment facility. This building allows for storage of the Authority's equipment indoors, which will increase its longevity.

At that time, the Authority also purchased a used boring machine. By using the Authority's own personnel, the Authority can now bore sewer pipe under roads, drives, and other obstacles in order to complete new hookups. Prior to this purchase, the Authority had to subcontract this out, which cost the Authority a significant percentage of the revenue that it gained from the additional hookup.

All equipment that has been purchased in the last three years has already been paid for in full by the cost savings that it has generated.

Equipment purchases for 2007 include a mini-excavator, fuse machine, vactor truck, and two transportation vans.

The Authority's revenue has been significantly increased by the implementation in 2005 of a \$5 per month increase in the user charge, which continues to provide additional revenue that is dedicated to the debt retirement fund.

In 2007, the Authority passed a resolution, which was approved by the Department of Environmental Quality, to increase its septage receiving rate from 5 cents per gallon to 7.5 cents per gallon. The original 5 cents per gallon monies are to be dedicated for debt service, while the 2.5 cents increase is to help offset the cost of future demands on the infrastructure of the treatment plant. Septage revenue was \$13,793 in the 2005 fiscal year, \$103,113 in the 2006 fiscal year, and \$121,093 in the 2007 fiscal year. In the current fiscal year, total septage revenue was \$115,234, of which \$109,747 went to debt retirement and \$5,487 went into the improvement account. Thus, the total septage revenue for debt service accumulated so far is \$353,233, while \$5,487 has been raised for improvements. The purchase of a flow meter coupled with obtaining permits from the MDEQ and having this program supervised by our own employees has created a septage receiving program that is an important new source of revenue that did not previously exist. By having the Authority's administrator draft a septage ordinance, which was then adopted by the County of Barry, to prohibit the spreading of septage on any field or waterway in Barry County and instructing that all said septage must now go to a septage receiving facility in Barry County (such as the SWBCSWA) helps ensure that this important source of revenue is protected in the future.

# **Southwest Barry County Sewer and Water Authority**

## **Management's Discussion and Analysis (Continued)**

The other major source of revenue for the Authority comes from increased hookups to the sewer system. In 2006, the Authority authorized 20 new hookups. This was the highest number of hookups experienced by the Authority since the mandatory hookups from the Fair Lake special assessments, which were completed in 1998. Disregarding special assessment hookups, this was the largest number of hookups ever experienced by the Authority in a single fiscal year. In 2007, the Authority gained 11.6 REUs (residential equivalency units) to the system, which is better than the 10 REUs which were anticipated in order to satisfy our bond payoff projections. There were nine new sewer connections in the 2008 fiscal year. It is anticipated that the Cloverdale - Long Lake project will contribute over 200 connections over the next two years.

Two years ago, the Authority also changed its governing ordinance, which was ratified by all four township boards, to increase the distance for a mandatory hookup from the sewer line from 200' to 350' in all areas except those which are zoned agricultural or agricultural/residential. This has already had an effect on gaining additional hookup fees for the Authority that would not have been realized previously. Approximately one-third of the Authority's hookups were generated this year due to this ordinance change.

The Authority's greatest achievement for 2006 was being successful in receiving a new five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility. The Authority had been operating without a permit for nearly eight years, having missed the renewal deadline. The Authority then had to start from scratch in having to meet new discharge regulations. Negotiations with the MDEQ in setting obtainable discharge limits for sodium chloride and other compounds were very fruitful.

Since obtaining the new five-year operation permit, the Authority has experienced significant decreases in attorney and engineering costs. Some of this decrease in costs may also be attributable to the Authority's decision to hire an administrator who is also a practicing attorney. The policy of having a single person being responsible for communications between the Authority's attorneys, engineers, and the board may have also reduced billable hours to the Authority by eliminating duplication of legal and engineering analysis.

All debt service payments were made by the Authority in a timely manner and debt service revenue exceeded the debt service revenue projections for the third straight year.

### **Nonoperating Revenue and Expenses**

Due to a more aggressive investment policy (i.e., the administrator and bookkeeper have been given additional flexibility to place larger amounts of monies in higher interest-bearing accounts), coupled with a decrease in banking surcharges (due to searching out better performing account types), the Authority has seen significant increases in its investment income over the last three years.

# **Southwest Barry County Sewer and Water Authority**

## **Management's Discussion and Analysis (Continued)**

### **Long Lake - Cloverdale Lake Sewer Expansion**

The 2007 fiscal year marked the first time in nearly 10 years that the Authority has made plans for a major expansion. Due to positive interest and input from many Hope Township residents regarding the possibility of having the Long Lake and Cloverdale Lake areas serviced by sewer, the Authority authorized that a wastewater study be done on this area. An engineer was hired to do a feasibility study on providing this area with our public sewer and a number of informational meetings were set up to discuss the options with the residents. Petitions under P.A. 188 were circulated along with numerous informational letters from the Authority. A proposed special assessment district was designed and a majority of the residents within this district, as well as a majority of the land mass represented in the district, signed petitions in favor of the proposed sewer expansion. This set the stage for holding the two public hearings which are required by the act. The Barry-Eaton Health Department was also instrumental in providing representation at these hearings as well as substantial supporting documentation as to the rather dire environmental conditions and the express need for public sewer service for this area. The two public hearings went well and the Hope Township board voted to adopt the proposed mandatory service district along with an assessment roll containing 307 parcels of land. Approximately 90 of these parcels are vacant lots, which will not be assessed or charged a hookup fee until they are built upon. The remaining parcels will generate approximately 220 additional REUs to the system.

The 2008 fiscal year brought significant progress to the Long Lake - Cloverdale Lake sewer extension project. All design and decisions regarding construction were completed. Permits from the Department of Environmental Quality, Barry County Road Commission, and Barry County Planning and Zoning were obtained. Contractors were selected to manage areas of the project which the Authority could not do by itself. Additional Authority staff was hired and trained to fuse and connect pipe. Contracts were negotiated and approved with the selected contractors. A contract was negotiated and approved between Hope Township and the SWBCSWA outlining the duties and responsibilities of both parties. Bonding for the project was negotiated and completed. Approximately 100 easements were obtained from property owners in order to lay sewer main on their properties. A mini-excavator, gravel truck, fuse machine, vactor truck, and two transportation vans were purchased by the Authority to aid in the furthering of the project. Construction of the main line from Wall Lake through Cloverdale Lake was completed and the first hookup from the new system was accomplished. It is anticipated that total construction and restoration for the project will be completed in 2008 and that all hookups will be made prior to the close of 2009.

The project's costs are estimated at approximately \$3.5 million. A \$14,000 assessment will be charged per single REU, which can then be paid over a 20-year period. The Authority will receive an indirect hookup charge of \$3,750 for each REU at the time of bonding. The Authority has adopted a resolution to place these funds in the Authority's improvement account along with certain restrictions. The Long Lake - Cloverdale Lake sewer extension project is currently ahead of schedule and under budget.



# **Southwest Barry County Sewer and Water Authority**

## **Management's Discussion and Analysis (Continued)**

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### **Future Projections**

All in all, the Authority continues to improve its financial position dramatically. By increasing revenues, decreasing costs, having greater internal controls, doing more work in-house, and having a sharper, clearer vision for the future, the Authority has strengthened both its financial and operational positions and has put itself on solid footing to meet any new additional challenges in the coming years.

### **Contacting the Authority's Management**

This management's discussion and analysis provides an overview of the current and prospective financial condition of the Authority's operations and physical assets. If there are questions concerning this report or if additional information is desired, please contact the Authority at 269-623-3401.

# Southwest Barry County Sewer and Water Authority

## Statement of Net Assets

	March 31	
	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and investments (Note 2)	\$ 331,763	\$ 328,908
Accounts receivable	154,692	138,952
Prepays	<u>369,745</u>	<u>411,554</u>
Total current assets	856,200	879,414
<b>Restricted Assets for Debt Services</b>		
Cash and investments (Note 2)	3,317,623	1,211,786
Special assessments receivables from townships (Note 3)	3,606,983	1,185,998
Contract connection fee receivable (Note 5)	<u>90,380</u>	<u>119,617</u>
Total restricted assets for debt services	7,014,986	2,517,401
<b>Other Assets - Bond issue costs - Net of amortization</b>	241,225	264,145
<b>Capital Assets (Note 4)</b>	<u>7,565,038</u>	<u>6,798,432</u>
Total assets	<u><b>\$ 15,677,449</b></u>	<u><b>\$ 10,459,392</b></u>

# Southwest Barry County Sewer and Water Authority

## Statement of Net Assets (Continued)

	March 31	
	2008	2007
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 32,597	\$ 19,277
Accrued expenses and other liabilities	55,522	67,709
Current portion of long-term debt (Note 6)	<u>860,000</u>	<u>810,000</u>
Total current liabilities	948,119	896,986
<b>Long-term Debt</b> (Note 6)	<u>5,074,487</u>	<u>3,064,229</u>
Total liabilities	6,022,606	3,961,215
<b>Net Assets</b>		
Investment in capital assets - Net of related debt	1,630,551	2,924,203
Restricted	7,014,986	2,517,401
Unrestricted	<u>1,009,306</u>	<u>1,056,573</u>
Total net assets	<u>9,654,843</u>	<u>6,498,177</u>
Total liabilities and net assets	<u><b>\$ 15,677,449</b></u>	<u><b>\$ 10,459,392</b></u>

# Southwest Barry County Sewer and Water Authority

## Statement of Activities

	Year Ended March 31	
	2008	2007
<b>Operating Revenue</b>		
Sewer user fees	\$ 647,756	\$ 646,262
Water user fees	48,382	48,217
Miscellaneous	39,006	4,383
Total operating revenue	735,144	698,862
<b>Operating Expenses</b>		
Cost of sewer	553,377	518,573
Cost of water	55,270	50,545
Total operating expenses	608,647	569,118
<b>Net Operating Income Before Depreciation</b>	126,497	129,744
<b>Depreciation</b>	663,158	677,509
<b>Net Loss from Operations</b>	(536,661)	(547,765)
<b>Nonoperating Revenues (Expenses)</b>		
Connection fees	70,370	90,066
Debt service fees	301,973	298,547
Investment income	129,898	48,413
Interest income on special assessments	120,654	78,918
Interest expense on bonds	(106,581)	(117,583)
Amortization on bond costs	(22,920)	(22,920)
Amortization of legal costs	(41,809)	(41,809)
Amortization of bond discount	(10,258)	(10,258)
Total nonoperating revenues	441,327	323,374
<b>Loss - Before contributions</b>	(95,334)	(224,391)
<b>Capital Contributions - Special assessments</b>	3,252,000	-
<b>Net Income (Loss)</b>	3,156,666	(224,391)
<b>Net Assets - Beginning of year</b>	6,498,177	6,722,568
<b>Net Assets - End of year</b>	<u><u>\$ 9,654,843</u></u>	<u><u>\$ 6,498,177</u></u>

# Southwest Barry County Sewer and Water Authority

## Statement of Cash Flows

	Year Ended March 31	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 719,404	\$ 678,120
Payments to suppliers	(259,202)	(207,469)
Payments to employees	(339,856)	(351,484)
Net cash provided by operating activities	120,346	119,167
<b>Cash Flows from Capital and Related Financing Activities</b>		
Collections on special assessments	831,015	341,294
Interest earned on special assessments	120,654	78,918
Collections on connection fees	99,607	127,081
Debt service fees collected	301,973	298,547
Purchase of capital assets	(1,321,666)	(81,239)
Proceeds from capital debt	2,960,000	-
Principal and interest paid on capital debt	(1,133,135)	(906,034)
Net cash provided by (used in) capital and related financing activities	1,858,448	(141,433)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	129,898	48,413
<b>Net Increase in Cash and Cash Equivalents</b>	2,108,692	26,147
<b>Cash and Cash Equivalents - Beginning of year</b>	1,540,694	1,514,547
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,649,386</b>	<b>\$ 1,540,694</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 331,763	\$ 328,908
Restricted cash and cash equivalents	3,317,623	1,211,786
<b>Total cash and cash equivalents</b>	<b>\$ 3,649,386</b>	<b>\$ 1,540,694</b>

# Southwest Barry County Sewer and Water Authority

## Statement of Cash Flows (Continued)

	Year Ended March 31	
	2008	2007
<b>Reconciliation of Net Loss from Operations to Net Cash from Operating Activities</b>		
Net loss from operations	\$ (536,661)	\$ (547,765)
Adjustments to reconcile net loss from operations to net cash from operating activities:		
Depreciation and amortization	663,158	677,509
Changes in assets and liabilities:		
Receivables	(15,740)	(20,742)
Accounts payable	13,320	6,380
Accrued and other liabilities	(3,731)	3,785
Net cash provided by operating activities	<u>\$ 120,346</u>	<u>\$ 119,167</u>

# Southwest Barry County Sewer and Water Authority

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## Notes to Financial Statements March 31, 2008 and 2007

### **Note 1 - Summary of Significant Accounting Policies**

Southwest Barry County Sewer and Water Authority (the "Authority") was established by the townships of Prairieville, Barry, Hope, and Johnstown. The Authority was incorporated in May 1991, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of a board member from each of the constituent townships. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities. The Authority is under a five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility.

The accounting policies of Southwest Barry County Sewer and Water Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Measurement Focus and Basis of Accounting** - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of activities distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue relates to charges for sewage collection and water services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Fund Accounting** - The accounts of Southwest Barry County Sewer and Water Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of sewer and water services. These services are financed primarily through user charges.

**Cash and Cash Equivalents** - The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are stated at invoice cost. All delinquent accounts receivable are sent to Barry County (the "County") for collection through the property tax rolls.

# **Southwest Barry County Sewer and Water Authority**

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## **Notes to Financial Statements March 31, 2008 and 2007**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Capital Assets** - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 5 to 40 years.

**Bond Issuance Costs and Discounts** - Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The Authority has designated one bank for the deposit of its funds, excluding those funds held by the County.

The Authority's investment policy is in accordance with statutory authority.



# Southwest Barry County Sewer and Water Authority

## Notes to Financial Statements March 31, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

The Authority's deposits and investments at March 31, 2008 and 2007 are included on the statement of net assets under the following classifications:

	2008		2007	
	Cash and Cash Equivalents	Restricted Assets for Debt Service	Cash and Cash Equivalents	Restricted Assets for Debt Service
Deposits:				
County treasurer	\$ -	\$ 919,690	\$ -	\$ 876,085
Bank	331,613	2,397,933	328,758	335,701
Petty cash	150	-	150	-
Total	<u>\$ 331,763</u>	<u>\$ 3,317,623</u>	<u>\$ 328,908</u>	<u>\$ 1,211,786</u>

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At the years ended March 31, 2008 and 2007, the Authority had approximately \$2,343,000 and \$565,000, respectively, of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Amounts Held by the County** - These funds were under the control of the county treasurer, who deposited these funds with a bank. It is impractical to determine the custodial credit risk as these funds are only a portion of the entire County deposits.

# Southwest Barry County Sewer and Water Authority

## Notes to Financial Statements March 31, 2008 and 2007

### Note 3 - Contracts with Townships

Contracts with townships represent the remaining amount due to the Authority from the original special assessment roll in 1990, the Fair Lake project special assessment roll in 1998, and Long Lake - Cloverdale Lake project special assessment in 2007. All are expected to be collected over a 20-year period. Details of the township contracts are as follows:

	Balance April 1, 2007	Principal (Collected) Issued	Balance March 31, 2008
Original assessment:			
Barry Township	\$ 135,889	\$ (40,776)	\$ 95,113
Hope Township	166,104	(59,597)	106,507
Johnstown Township	157,783	(54,579)	103,204
Prairieville Township	<u>344,249</u>	<u>(120,676)</u>	<u>223,573</u>
Total original assessment	804,025	(275,628)	528,397
Long Lake - Cloverdale Lake project - Hope Township:			
Issued	-	3,252,000	3,252,000
Collected	-	(517,580)	(517,580)
Fair Lake project - Barry Township	<u>381,973</u>	<u>(37,807)</u>	<u>344,166</u>
Total contracts due from townships	<u>\$ 1,185,998</u>	<u>\$ 2,420,985</u>	<u>\$ 3,606,983</u>

Total interest collected was \$120,654 and \$78,918 in 2008 and 2007, respectively.

# Southwest Barry County Sewer and Water Authority

## Notes to Financial Statements March 31, 2008 and 2007

### Note 4 - Capital Assets

The cost of property, plant, and equipment is summarized as follows:

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
Capital assets not being depreciated:				
Land and easements	\$ 486,830	\$ -	\$ -	\$ 486,830
Construction in progress	49,636	1,300,096	-	1,349,732
Subtotal	536,466	1,300,096	-	1,836,562
Capital assets being depreciated:				
Treatment plant	2,971,991	-	(34,676)	2,937,315
Wells, mains, and equipment	9,861,942	129,668	(2,932)	9,988,678
Subtotal	12,833,933	129,668	(37,608)	12,925,993
Accumulated depreciation:				
Treatment plant	1,541,872	154,560	(34,676)	1,661,756
Wells, mains, and equipment	5,030,095	508,598	(2,932)	5,535,761
Subtotal	6,571,967	663,158	(37,608)	7,197,517
Net capital assets being depreciated	6,261,966	(533,490)	-	5,728,476
Net capital assets	<u>\$ 6,798,432</u>	<u>\$ 766,606</u>	<u>\$ -</u>	<u>\$ 7,565,038</u>
	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
Capital assets not being depreciated:				
Land and easements	\$ 486,830	\$ -	\$ -	\$ 486,830
Construction in progress	34,484	15,152	-	49,636
Subtotal	521,314	15,152	-	536,466
Capital assets being depreciated:				
Treatment plant	2,910,825	61,166	-	2,971,991
Wells, mains, and equipment	9,857,021	4,921	-	9,861,942
Subtotal	12,767,846	66,087	-	12,833,933
Accumulated depreciation:				
Treatment plant	1,387,425	154,447	-	1,541,872
Wells, mains, and equipment	4,507,033	523,062	-	5,030,095
Subtotal	5,894,458	677,509	-	6,571,967
Net capital assets being depreciated	6,873,388	(611,422)	-	6,261,966
Net capital assets	<u>\$ 7,394,702</u>	<u>\$ (596,270)</u>	<u>\$ -</u>	<u>\$ 6,798,432</u>

# Southwest Barry County Sewer and Water Authority

## Notes to Financial Statements March 31, 2008 and 2007

### Note 4 - Capital Assets (Continued)

Depreciation expense was \$663,158 and \$677,509 for the years ended March 31, 2008 and 2007, respectively.

### Note 5 - Contract Connection Fees

Contract connection fees represent the balance due from customers who have elected to hook up to the system, but were not on the original assessment roll with any of the townships. The Authority is collecting the receivables directly from the customers.

Balance April 1, 2007	New Hook-ups	Amounts Paid	Balance March 31, 2008
<u>\$ 119,617</u>	<u>\$ 49,250</u>	<u>\$ (78,487)</u>	<u>\$ 90,380</u>

### Note 6 - Long-term Debt

The Authority issues bonds to provide for the cost of constructing sewer and water lines. General obligation bonds are direct obligations and pledge the full faith and credit of the participating townships. Installment purchase agreements are also general obligations of the Authority.

Long-term obligation activity can be summarized as follows for the year ended March 31, 2008:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Southwest Barry County Sewage							
Disposal refunding bonds,							
Series 2004:	2.35%-3.15%		\$ 3,200,000	\$ -	\$ (750,000)	\$ 2,450,000	\$ 800,000
Amount of issue	\$4,665,000	\$750,000- \$850,000					
Maturing through	2010						
Fair Lake Extension Sewage							
Disposal bonds:	4.45%-4.90%						
Amount of issue	\$1,110,000	\$60,000- \$65,000	705,000	-	(60,000)	645,000	60,000
Maturing through	2017						
Long Lake - Cloverdale Lake Bond Fund							
Disposal bonds:	4.45%-4.90%						
Amount of issue	\$2,960,000	\$140,000- \$155,000					
Maturing through	2017		-	\$ 2,960,000	(100,000)	2,860,000	-
Subtotal			3,905,000	2,960,000	(910,000)	5,955,000	860,000
Less deferred amount on refunding			(30,771)	-	10,258	(20,513)	-
Total long-term debt			<u>\$ 3,874,229</u>	<u>\$ 2,960,000</u>	<u>\$ (899,742)</u>	<u>\$ 5,934,487</u>	<u>\$ 860,000</u>

# Southwest Barry County Sewer and Water Authority

## Notes to Financial Statements March 31, 2008 and 2007

### Note 6 - Long-term Debt (Continued)

**Debt Service Requirements** - The annual requirements to amortize all long-term debt outstanding as of March 31, 2008, including both principal and interest, are as follows:

	Principal	Interest	Total
2008	\$ 860,000	\$ 156,539	\$ 1,016,539
2009	1,005,000	195,358	1,200,358
2010	1,065,000	210,398	1,275,398
2011	215,000	137,014	352,014
2012	215,000	126,938	341,938
2013-2017	1,075,000	443,430	1,518,430
2018-2027	<u>1,520,000</u>	<u>358,488</u>	<u>1,878,488</u>
Total	<u>\$ 5,955,000</u>	<u>\$ 1,628,165</u>	<u>\$ 7,583,165</u>

**Interest** - Total interest incurred for the Authority was \$214,679, including \$108,098 of capitalized interest, and \$117,583 for the years ended March 31, 2008 and 2007, respectively.

**Pledged Revenue** - The Authority has pledged all special assessment receipts to repay the above revenue bonds. Proceeds from the bonds provided financing for the construction and continued development of the system. The bonds are payable solely from the net revenues of the system. The remaining principal and interest to be paid on the bonds total \$7,583,165. During the current year, special assessment receipts were approximately \$952,000 compared to the annual debt requirements of approximately \$1,133,000.

### Note 7 - Defined Contribution Pension Plan

The Authority provides pension benefits to all full-time and salaried employees through a defined contribution plan by adopting the MTA Master Compensation Plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 8 percent of base compensation for participating employees, except for the manager and administrator, for whom 11 percent is contributed. Employees are able to defer compensation into the plan up to the limits governing IRS Section 457 retirement plans. Total contributions to the plan for the years ended March 31, 2008 and 2007 were \$14,435 and \$14,814, respectively.

# **Southwest Barry County Sewer and Water Authority**

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## **Notes to Financial Statements March 31, 2008 and 2007**

### **Note 8 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits for the employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 9 - Commitments**

At March 31, 2008, the Authority had construction commitments with various vendors related to the Long Lake - Cloverdale Lake construction project.

June 4, 2008

To the Members of the Board  
Southwest Barry County Sewer and Water Authority

Dear Board Members:

In planning and performing our audit of the financial statements of the Southwest Barry County Sewer and Water Authority as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Southwest Barry County Sewer and Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southwest Barry County Sewer and Water Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.
- A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

### **Audit Adjustments**

During the audit process, a couple significant entries were recommended to management. Related to the Long/Cloverdale Lake project, the special assessment receivable and corresponding revenue of approximately \$3.2 million was recorded as an audit adjustment, as well as an entry to record approximately \$108,000 of capitalized interest related to the construction project.

To the Members of the Board  
Southwest Barry County Sewer and Water Authority

June 4, 2008

We believe the following deficiency constitutes a control deficiency:

**Capitalization Policy**

We also noted that the Authority does not have a documented capitalization policy. We recommend the Authority develop a Board approved capitalization policy stating the approved capitalization limits. We would be able to provide examples of capitalization policies to management, if needed.

This communication is intended solely for the information and use of management, the Board, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA  
Partner



June 4, 2008

To the Members of the Board  
Southwest Barry County Sewer and Water Authority

We have audited the financial statements of Southwest Barry County Sewer and Water Authority for the year ended March 31, 2008, and have issued our report thereon dated June 3, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 9, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Southwest Barry County Sewer and Water Authority. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to the Members of the Board.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Southwest Barry County Sewer and Water Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the depreciation calculation.

Management's estimate of the depreciation is based on historical cost and computed on the straight-line method using the estimated useful lives of the assets.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Two of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The first adjustment related to the recording of the special assessment revenue and receivable for the Long/Cloverdale Lake project of approximately \$3.2 million. The second adjustment related to recording capitalized interest of approximately \$108,000 related to the construction project.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated June 4, 2008.

June 4, 2008

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the Organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

This information is intended solely for the use of with the Members of the Board and management of Southwest Barry County Sewer and Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA  
Partner